

**REPORT OF THE AUDIT OF THE
TODD COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
January 1, 2007 Through April 23, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
TODD COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
January 1, 2007 Through April 23, 2007

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for Todd County Sheriff for the period January 1, 2007 through April 23, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$313,614 for the districts for 2006 taxes for the period January 1, 2007 through April 23, 2007, retaining commissions of \$11,231 to operate the Sheriff's office. The Sheriff distributed taxes of \$301,549 to the districts for 2006 Taxes. No taxes are due to the districts from the Sheriff and no refunds are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Distribute Interest Earned On Tax Collections To Board Of Education Monthly

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Arthur W. Green, Todd County Judge/Executive

Honorable W. D. Stokes, Todd County Sheriff

Members of the Todd County Fiscal Court

Independent Auditor's Report

We have audited the Todd County Sheriff's Settlement - 2006 Taxes for the period January 1, 2007 through April 23, 2007. This tax settlement is the responsibility of the Todd County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Todd County Sheriff's taxes charged, credited, and paid for the period January 1, 2007 through April 23, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated March 10, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Arthur W. Green, Todd County Judge/Executive

Honorable W. D. Stokes, Todd County Sheriff

Members of the Todd County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Distribute Interest Earned On Tax Collections To Board Of Education Monthly

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

March 10, 2008

TODD COUNTY
W. D. STOKES, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period January 1, 2007 Through April 23, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Transfer From Former Sheriff	\$ 44,002	\$ 42,321	\$ 161,577	\$ 61,730
Franchise Taxes	25,113	27,705	87,506	
Oil and Gas Property Taxes	179	158	658	244
Limestone, Sand and Mineral Reserves	3	3	14	5
Penalties	2,669	2,603	9,793	3,770
Gross Chargeable to Sheriff	71,966	72,790	259,548	65,749
<u>Credits</u>				
Exonerations	94	102	347	129
Discounts	3	2	9	3
Delinquents:				
Real Estate	8,130	7,544	29,916	11,067
Tangible Personal Property	19	22	64	84
Uncollected Oil Property Taxes	19	17	70	26
Franchise Taxes:				
Delinquent	3,420	3,543	12,123	
Uncollected	14,250	16,209	49,227	
Total Credits	25,935	27,439	91,756	11,309
Taxes Collected	46,031	45,351	167,792	54,440
Less: Commissions *	1,956	1,927	5,034	2,314
Taxes Due	44,075	43,424	162,758	52,126
Taxes Paid	43,958	43,307	162,321	51,963
Refunds (Current and Prior Year)	117	117	437	163
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	\$ 0	\$ 0	\$ 0	\$ 0

* Commissions:

4.25% on \$ 145,822
3% on \$ 167,792

The accompanying notes are an integral part of this financial statement.

TODD COUNTY
NOTES TO FINANCIAL STATEMENT

April 23, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

TODD COUNTY
NOTES TO FINANCIAL STATEMENT
April 23, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 23, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Tax bills unpaid as of December 31, 2006 were transferred from the former Sheriff Keith Wells on January 4, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 1, 2007 through April 23, 2007.

B. Oil Taxes

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 1, 2007 through August 31, 2007.

Note 4. Interest Income

The Todd County Sheriff earned \$532 as interest income on 2006 taxes. As of March 10, 2008, the Sheriff owed \$276 to the school district and was owed \$272 in interest from the fee account.

Note 5. Sheriff's 10% Add-On Fee

The Todd County Sheriff collected \$14,106 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Todd County Sheriff collected \$335 of advertising costs and \$2,125 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Arthur W. Green, Todd County Judge/Executive
Honorable W. D. Stokes, Todd County Sheriff
Members of the Todd County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Todd County Sheriff's Settlement - 2006 Taxes for the period January 1, 2007 through April 23, 2007, and have issued our report thereon dated March 10, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Todd County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Todd County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Todd County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Todd County Sheriff's Settlement – 2006 Taxes for the period January 1, 2007 through April 23, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or another matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Distribute Interest Earned On Tax Collections To Board Of Education Monthly

This report is intended solely for the information and use of management, the Todd County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 10, 2008

COMMENTS AND RECOMMENDATIONS

TODD COUNTY
W. D. STOKES, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period January 1, 2007 Through April 23, 2007

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal controls, we noted the sheriff's office lacks adequate segregation of duties. The Sheriff's bookkeeper collects money, prepares deposits, prepares the daily collection printout, and prepares the receipts ledger. The Sheriff's bookkeeper prepares monthly reports, prepares the disbursements ledger, prepares checks, and signs checks to taxing districts. The Sheriff's bookkeeper performs the monthly bank reconciliation, reconciling bank receipts and disbursements to the monthly tax reports and tax distributions.

While the Sheriff has implemented compensating controls to offset the lack of segregation of duties, we noted these compensating controls are not always documented. We recommend that the Sheriff document these compensating controls.

- Cash counts should be documented and the person performing the count should sign off. If cash is recounted, that person should also sign off.
- The official should document when he periodically recounts and deposits cash.
- When the monthly tax reports are compared to daily tax collection printouts and checks written, this procedure should be documented by running a total on the daily tax collection printouts and checks written. These totals should be agreed to the total per monthly tax reports. The Sheriff or another individual should document reviewing this reconciliation.
- When total deposits for month are agreed to checks written for month, this reconciliation should be documented. All receipts for a month should be paid out the following month. The Sheriff or another individual should document reviewing this reconciliation.
- The Sheriff or another individual should document periodically reviewing the comparison of the daily bank deposit to the daily collections prepared by the Sheriff's bookkeeper. The Sheriff or designee should compare the numbers on the comparison to the daily bank deposit, daily checkout sheet, and the daily tax collection printout. Any differences should be reconciled. This procedure can be documented by initialing the comparison prepared by the Sheriff's bookkeeper, bank deposit, daily checkout sheet, and daily tax collection printout.

Sheriff's Response: None.

STATE LAWS AND REGULATIONS:

The Sheriff Should Distribute Interest Earned On Tax Collections To Board Of Education Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly “. . . that part of investment earnings for the month which is attributable to the investment of school taxes.” The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be paid to the fee account. The Todd County Sheriff earned \$532 as interest income on 2006 taxes for the period January 1, 2007 through April 23, 2007. However, the Sheriff's office did not pay the interest to the board of education on a

TODD COUNTY
W. D. STOKES, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period January 1, 2007 Through April 23, 2007
(Continued)

STATE LAWS AND REGULATIONS: (CONTINUED)

The Sheriff Should Distribute Interest Earned On Tax Collections To Board Of Education Monthly (Continued)

monthly basis. The Sheriff's office paid all interest earned on the tax account to the fee account on a monthly basis. Therefore, as of March 10, 2008, the Sheriff owed \$276 in interest to the Todd County Board of Education and the tax account was due a refund of \$272 in interest from the fee account.

Sheriff's Response: None.

